

FDIC State Profile

Winter 2004

Massachusetts

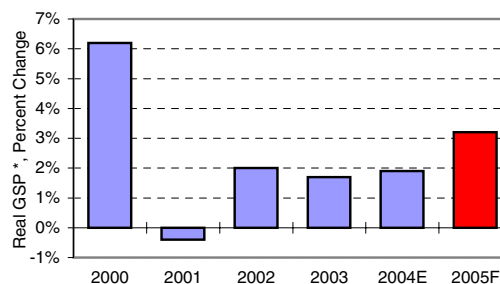
National real gross domestic product (GDP) is forecasted to moderate in 2005.

- National real GDP during 2004 is currently forecasted by Economy.com to grow about 4.0 percent when measured from fourth quarter 2003 to fourth quarter 2004. This would be slightly below the 4.4 percent growth posted for 2003, but well ahead of the 2.3 percent growth in 2002 and the 0.2 percent growth experienced during the recession year of 2001.
- Consensus forecasts project 2005 real GDP growth to moderate to about 3.0 percent when measured on this basis.

Massachusetts, along with other states in New England, benefited from growth in the national economy during 2004. The 2005 forecast expects growth to continue.

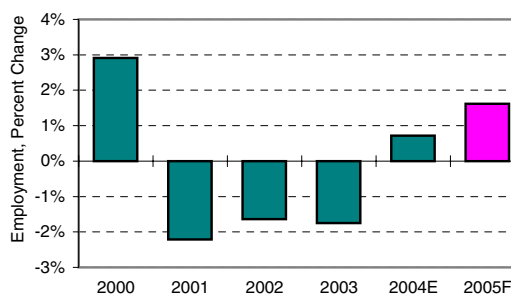
- Growth in gross state product for Massachusetts is estimated to increase to 3.0 percent from the 2.0 percent pace achieved since 2002 according to a regional growth forecast prepared by the New England Economic Partnership (See Chart 1).
- Payroll employment growth will likely continue accelerating through next year (See Chart 2). Employment growth has lagged the turnaround in output, as it generally does, because businesses are reluctant to hire during the initial phases of an economic recovery. Both labor demand and the rate of employment growth should improve
- Due to large capital investment requirements of many key industries in New England, the lag in job growth has been more pronounced here. In addition, slow labor force growth and relatively high costs of doing business have also contributed to a more muted employment growth relative to the national average.
- In Massachusetts, economic improvement is likely to occur as the manufacturing base stabilizes and other areas—principally education, health care and business services—grow more rapidly. The high tech sector is expected to be a vibrant contributor of job growth as well.

Chart 1: Massachusetts Real Output Is Forecast to Increase Next Year



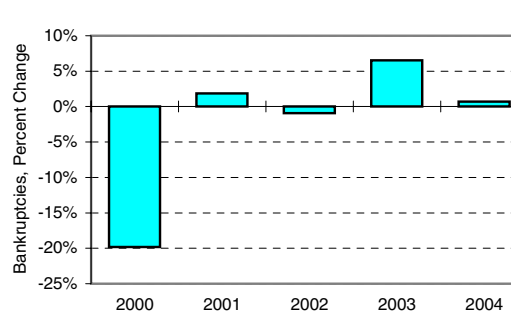
* Gross State Product, Q4 to Q4
Source: New England Economic Partnership and Economy.com

Chart 2: Payroll Employment Is Growing After a Three-Year Recession



Source: New England Economic Partnership and Economy.com (Q4 to Q4 data)

Chart 3: Bankruptcy Filings Stabilized in 2004



Source: Administrative Office of the U.S. Courts (Q2 to Q2 data)

State Profile

Better economic times in Massachusetts imply fewer bankruptcies.

- The lack of payroll growth during the years 2001-2003 contributed to the rise in bankruptcies through 2003 (See Chart 3).
- The acceleration in payroll employment's growth this year and expectations for next year suggests bankruptcies are likely to decline. The small increase in bankruptcies observed during the four quarters ending in second quarter 2004 may well foreshadow such a drop-off in bankruptcies during 2004 and through 2005.

Net interest margin (NIM) compression at Massachusetts' small institutions prolongs a long term trend of declining profitability.

- The median return on assets (ROA) of 0.68 percent as of September 30, 2004 for Massachusetts' small insured institutions (assets less than \$1 billion) was substantially below that posted for similar institutions across the nation. On a longer term basis, declining profitability appears consistent with a trend of a weakening NIM. Almost half the state's small institutions are classified as mortgage lenders¹ and earnings continue to be affected by low interest rates that are squeezing the NIM (See Chart 4).
- Residential mortgage loans account for 60 percent of total loans in the state's small institutions compared to 32 percent of total loans in the small institutions nationwide. Prepayment speeds on these lower-yielding loans will likely slow as interest rates rise and will likely pressure profitability for many small institutions in Massachusetts as funding costs rise also.
- The state's large institutions (assets greater than \$1 billion) experienced a six basis point decline in the median ROA to 0.88 percent compared to 1.20 percent for similar banks across the country. Contributing factors include declining noninterest income and continued pressure on NIM.

The number of banking offices is increasing in Massachusetts.

- Insured banking institutions operated 2,115 offices in Massachusetts as of June 30, 2004. This represents an increase of 213 offices since 1997, following industry consolidation during the mid 1990s that resulted in a reduced number of banking offices (See Chart 5). Out-of-state institutions controlled 33 percent of total deposits in Massachusetts as of June 30, 2004.

Loan growth is strong in Massachusetts as insured institutions expand commercial loan portfolios.

- The state's insured institutions continued to experience strong loan growth through the third quarter of 2004. The median growth rate for total loans was almost 12 percent as of September 30, 2004, the highest growth rate posted in the past several years (See Chart 6). The state's large institutions (assets greater than \$1 billion) continued to be active in the mortgage market and posted a median growth rate for mortgage loans of 15 percent as of September 30, 2004.

Chart 4: Earnings Continue an Overall Decline in the Small Institutions as Margins Show Pressure

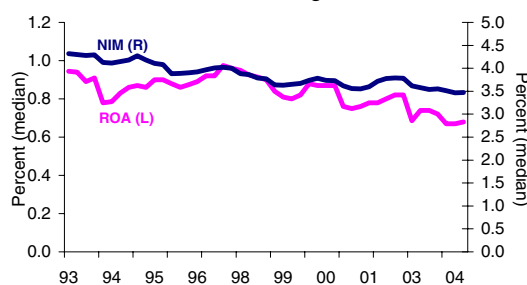


Chart 5: The Number of Banking Offices Continues to Increase

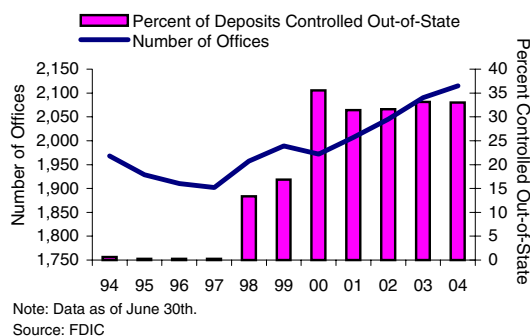
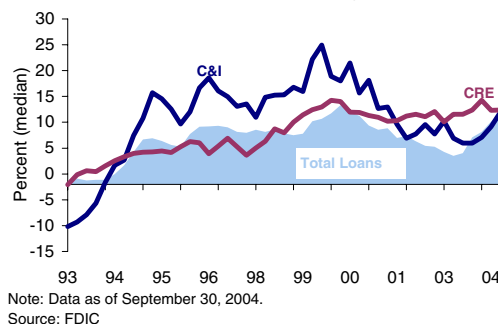


Chart 6: Insured Institutions in Massachusetts Continue to Experience Strong Loan Growth



¹Mortgage lenders are institutions with more than half of assets in mortgage-related products.

Massachusetts at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	200	211	217	225	230
Total Assets (in thousands)	227,551,373	204,812,250	193,500,634	184,980,613	165,562,906
New Institutions (# < 3 years)	2	2	3	1	4
New Institutions (# < 9 years)	3	4	4	5	8
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.34	9.17	9.22	9.26	9.84
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	0.60%	0.75%	0.81%	0.97%	1.01%
Past-Due and Nonaccrual >= 5%	1	0	3	2	5
ALLL/Total Loans (median %)	0.93%	1.02%	1.00%	0.99%	0.96%
ALLL/Noncurrent Loans (median multiple)	5.64	4.18	4.25	4.53	4.10
Net Loan Losses/Loans (aggregate)	0.07%	0.13%	0.14%	0.10%	0.07%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	3	4	3	6	7
Percent Unprofitable	1.50%	1.90%	1.38%	2.67%	3.04%
Return on Assets (median %)	0.68	0.77	0.84	0.80	0.90
25th Percentile	0.48	0.53	0.65	0.55	0.66
Net Interest Margin (median %)	3.45%	3.53%	3.73%	3.56%	3.71%
Yield on Earning Assets (median)	5.01%	5.34%	6.29%	7.20%	7.38%
Cost of Funding Earning Assets (median)	1.55%	1.87%	2.58%	3.66%	3.68%
Provisions to Avg. Assets (median)	0.02%	0.03%	0.04%	0.04%	0.04%
Noninterest Income to Avg. Assets (median)	0.40%	0.50%	0.41%	0.40%	0.37%
Overhead to Avg. Assets (median)	2.66%	2.66%	2.63%	2.63%	2.65%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	77.91%	72.68%	74.28%	79.06%	81.64%
Loans to Assets (median %)	63.69%	60.20%	61.19%	63.93%	66.32%
Brokered Deposits (# of Institutions)	25	23	16	13	14
Bro. Deps./Assets (median for above inst.)	2.19%	2.25%	1.86%	0.65%	1.26%
Noncore Funding to Assets (median)	19.47%	17.12%	16.53%	16.70%	15.45%
Core Funding to Assets (median)	69.52%	71.66%	72.17%	71.94%	72.73%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	22	24	25	28	28
National	11	14	13	12	13
State Member	4	1	2	2	2
S&L	6	6	6	6	7
Savings Bank	15	14	15	15	16
Stock and Mutual SB	142	152	156	162	164
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Boston MA-NH PMSA	116	198,174,269	58.00%	87.09%	
No MSA	16	5,394,253	8.00%	2.37%	
Worcester MA-CT PMSA	15	4,604,303	7.50%	2.02%	
Springfield MA	13	7,541,150	6.50%	3.31%	
Lawrence MA-NH PMSA	8	1,591,976	4.00%	0.70%	
Brockton MA PMSA	8	1,012,469	4.00%	0.44%	
Pittsfield MA	7	2,889,194	3.50%	1.27%	
Providence-Fall River-Warwick RI-MA	5	1,842,693	2.50%	0.81%	
Lowell MA-NH PMSA	5	1,909,309	2.50%	0.84%	
Fitchburg-Leominster MA PMSA	4	754,902	2.00%	0.33%	
Barnstable-Yarmouth MA	2	1,766,497	1.00%	0.78%	
New Bedford MA PMSA	1	70,358	0.50%	0.03%	